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Mayor

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Office of Internal Audit

Louisville Central Community
Centers, Inc.

Grants (FY 2001 - 2003)

Report

Louisville Central Community Centers, Inc.

Grants (FY 2001 - 2003)

December 2004

Office of Internal Audit



Louisville Central Community
Centers, Inc.

Grants (FY 2001 - 2003)

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LOUISVILLE, KENTUCKY
OFFICE OF INTERNAL AUDIT

MICHAEL S. NORMAN, CIA
CHIEF AUDIT EXECUTIVE

Transmittal Letter

December 14, 2004

Honorable Denise Bentley
Louisville Metro Council
601 West Jefferson Street
Louisville, KY 40202

SUBJ: Review of Grants to Louisville Central Community Centers, Inc

Introduction

As requested, we have reviewed the grants to Louisville Central Community Centers, Inc (LCCC). We were requested to review all grants made to LCCC for fiscal year 2001 through fiscal year 2003. This included grants from both the former City of Louisville as well as Jefferson County Fiscal Court. The purpose was to verify that the grant funds were used as intended. Determining the value or worthiness of the grants was not an objective.

Scope

Nine grants were identified as awarded by the City of Louisville to Louisville Central Community Centers during fiscal year 2001 through fiscal year 2003. The total amount awarded was \$694,200. The grants are listed in Table 1 on the following page. No grants were identified as having been awarded by Jefferson County Fiscal Court to LCCC during this period.

Grant funds were accounted for by reviewing financial activities associated with each. The purpose was to determine if the grant funds were used as intended. Determining the worthiness or value of the grants was not an objective. Details of the review performed are in the Results section of this report. The review was conducted in accordance with Government Auditing Standards and with the Standards for the Professional Practice of Internal Auditing.

Table 1 - LCCC Grants Fiscal Year 2001 – Fiscal Year 2003

<i>Agency</i> ¹	<i>Fiscal Year</i>	<i>Amount</i>	<i>Purpose</i>	<i>Reference Number</i>
<i>Finance</i>	2001	\$250,000	Facilities Construction	73S2000
<i>Finance</i>	2000 ²	\$300,000	Facilities Construction	73S1999
<i>Neighborhoods</i>	2003	\$40,000	Job Readiness ³	29G12479LC
<i>Neighborhoods</i>	2003	\$20,000	Truancy Reduction	29G12480LC
<i>Neighborhoods</i>	2002	\$60,000	Job Readiness ³ Truancy Reduction	29G12187LC
<i>Neighborhoods</i>	2001	\$20,000	Truancy Reduction	29G11984LC
<i>Board of Aldermen</i>	2002	\$1,500	Neighborhood Beautification Make a Difference National Crime Night Out	Aldermanic (NPRF)
<i>Board of Aldermen</i>	2001	\$1,200	Make a Difference Regional Neighborhood Conf	Aldermanic (NPRF)
<i>Youth Development</i>	2001	\$1,500	Non-School Hours - Operation Youth Express	28G11973CC

¹ No grants were identified as having been awarded by Jefferson County Fiscal Court to LCCC during this period.

² Awarded in fiscal year 2000, but actually paid in fiscal year 2001.

³ Appropriation was intended for Affordable Housing Initiative Program at Louisville Central Development Corporation, not Louisville Central Community Centers. See explanation in Results section of this report.

Conclusion

For the grants administered by the Department of Neighborhoods, several major issues were noted. It appears that there was confusion as to the intention of appropriations included in the City of Louisville's annual operating budgets. This involved the Affordable Housing Initiative Project at Louisville Central Development Corporation.

Due to this administrative confusion, grant agreements were executed (signed by both LCCC and the Department of Neighborhoods) for a program that was not actually funded. As a result, it appears the use of the grant funds was not in compliance with the grant agreements. However, it appears the use of the funds was in compliance with the intention of the appropriation. A complete explanation is in the Results section of this report. *It does not appear, nor should it be inferred, that the funds were misappropriated or that there are allegations of improper activity.*

For the grants administered by other Departments, some problems were noted. These are the types of documentation and timing problems commonly found in reviews of external agency grants from these periods, and do not mean that the funds were not used as intended. These are detailed in the Results section of this report.

Recommendation

For the Department of Neighborhoods grants, it appears there was an administrative breakdown by both the former City and Louisville Central Community Centers. While this breakdown resulted in technical non-compliance with the executed grant agreements, it appears the funds were used for the intended purpose of the appropriations. Therefore, pursuing further remedial action for these grants is not recommended.

However, the Office of Internal Audit does not have the authority to make the final determination of necessary remedial action. Therefore, the information will be provided to the current Department of Neighborhoods Administration for review and determination as to the necessity of further action. The current Department of Neighborhoods Administration was not responsible for these grants, and therefore has the necessary independence to make this determination. It is also recommended that the County Attorney be asked for assistance in reviewing this matter and the Department of Neighborhoods determination of remedial action.

In addition, Louisville Central Community Centers needs to address the other problems noted. It should be noted that fieldwork for this review began in October 2003. Due to the numerous problems encountered throughout the review, we were not able to complete it until October 2004. This underscores the importance of corrective action being implemented. Neither Louisville Metro nor LCCC has the resources to commit to lengthy reviews of this nature in the future. It is imperative that Louisville Metro grant

monitors ensure that corrective actions have been satisfactorily implemented by performing frequent monitoring site visits at LCCC. If you would like to discuss this further, please contact me.

Sincerely,



Michael S. Norman, CIA
Chief Audit Executive

cc: Louisville Metro Council Audit Committee
 Louisville Metro Council
 Director of Neighborhoods
 Chief Financial Officer
 Director of Human Services
 Director of Youth Services
 Metro Council Clerk

RESULTS

Scope

Key individuals were interviewed in order to obtain a general understanding of the processing of grant-related activity. Grant funds were accounted for by reviewing financial activities associated with each grant. This included reviewing sixty-one transactions along with LCCC's accounting ledgers, invoices, bank statements, cancelled checks, and associated activity reports. Based on these records, an assessment was made as to whether the grantee was in compliance with the grant agreements and funds were used as intended. Determining the worthiness or value of the grants was not an objective.

Results for the grants reviewed begin on the following page. The results are grouped by the former City Agency that administered the grant.

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Only the grants with exceptions are detailed in the following pages. Thus, if a grant is not listed, no problems were noted.

Department of Neighborhoods

Explanation of Non-Compliance (Fiscal Year 2002 and Fiscal Year 2003)

There appears to have been some major administrative confusion with the grants administered by the Department of Neighborhoods. As a result, it appears Louisville Central Community Centers (LCCC) did not comply with grant agreements in fiscal years 2002 and 2003, but did use the grant funds as intended by the appropriation.

The confusion stems from the funding of the Affordable Housing Initiative Project at the Louisville Central Development Corporation. While separate entities, there is a relationship between Louisville Central Community Centers and Louisville Central Development Corporation that resulted in grants intended for one entity being sent to the other.

A synopsis of the situation follows. *It is important to note that the Office of Internal Audit is not asserting that this is definitively what occurred or is 100% accurate.* Louisville Metro officials (i.e., Department of Neighborhoods and Department of Finance and Budget) could not provide adequate files and documentation to substantiate the activity, nor could it be sufficiently corroborated with existing personnel. Verification was obtained when possible, so there is some reasonable assurance that the details are accurate.

Synopsis

In fiscal year 2000, funding for the Affordable Housing Initiative Project (AHIP) at Louisville Central Development Corporation (LCDC) was awarded. This appears to have been the genesis of the administrative confusion between LCDC and Louisville Central Community Centers. Prior to this, LCCC had been receiving annual grants, which were administered by the Department of Neighborhoods, for its truancy reduction program.

The Louisville Development Authority administered the initial \$30,000 award for the AHIP. It appears there was confusion about Louisville Central Community Centers and Louisville Central Development Corporation from the start. Based on documentation reviewed, it appears the grant funds were paid to LCCC instead of LCDC, even though LCDC was performing the work.

In fiscal year 2001, Louisville Central Community Centers received a \$20,000 appropriation for the truancy reduction program. The Department of Neighborhoods (DON) administered this grant. The payments were actually made to Louisville Central Development Corporation, instead of Louisville Central Community Centers. DON could not locate files for this grant in particular, or for LCDC in general. Therefore, it cannot be determined why this was paid to LCDC instead of LCCC. It appears to be an

administrative mistake in the use of vendor numbers that was not detected, by either DON or Finance.

In fiscal year 2001, a \$32,000 appropriation was also made to Louisville Central Community Centers. LCCC provided the only copy of the grant agreement that could be located. This agreement indicates the purpose of the award was the Affordable Housing Initiative Project at LCDC. This copy was not fully executed, i.e., it was not signed by appropriate City of Louisville representatives. Included with this copy was a letter from the Department of Neighborhoods to LCCC, not LCDC, which was sent with the grant agreement. There was another letter from LCCC indicating that the grant agreement had been changed to reflect the correct entity (LCDC) and program (AHIP).

In fiscal year 2002, there were two appropriations made to Louisville Central Community Centers. One grant agreement was entered into for \$60,000. The purpose as indicated in the Work Program Budget was the truancy reduction program, and a job readiness skills training program. According to Louisville Central Community Centers officials, the administrative confusion and mistakes that occurred at this time resulted in the non-compliance with the grant agreements. LCCC officials explained that the following occurred.

- LCCC had applied for a grant for the job readiness skills training program in addition to the truancy reduction program. The notification from the Department of Neighborhoods indicated that \$60,000 was awarded to LCCC. As a result, LCCC assumed that \$40,000 had been awarded for the job readiness skills training program. It appears that neither LCCC nor DON realized that the \$40,000 was actually intended for the Affordable Housing Initiative Project at LCDC.
- LCCC implemented the job readiness skills training program in addition to the truancy reduction program. They contacted DON several times inquiring about the status of the LCDC funds. During the time it took to resolve the issue of funding for LCDC, both the job readiness skills training program and the AHIP were being performed by LCCC.
- It was finally determined that the job readiness skills training program had not been the intended recipient of the grant award; it should have gone to the AHIP at LCDC. LCCC absorbed the cost of the job readiness skills program and used the grant funds for the AHIP as intended. However, the grant agreement was never modified to indicate this. Therefore, ***it appears the use of \$40,000 of the grant funds was not in compliance with the agreement.***

In fiscal year 2003, \$40,000 was appropriated to Louisville Central Community Centers. The purpose as indicated in the Work Program Budget was the job readiness skills training program. According to LCCC personnel, this was done because the confusion surrounding the FY 2002 grant had not yet been resolved. By the time the issue had been resolved, LCCC had already entered into the grant agreement for FY 2003. Since LCCC knew the funds were intended for the AHIP at LCDC, not the job

readiness skills training program, the funds were used accordingly. However, the grant agreement was never modified. As a result, ***the use of the \$40,000 grant funds was not in compliance with the agreement.***

For both fiscal years 2002 and 2003, Metro officials could not provide documentation, or other evidence, indicating that the grant appropriations / agreements had been modified. In addition, the grant proposals indicating the purpose for the awards could not be located and the Department of Finance could not provide grant agreements for three of the grants (FY 2000 & 2001 AHIP, FY 2001 Truancy Reduction). Due to this, a grant agreement number is not available for the FY 2001 Truancy Reduction grant.

Corroboration of the intent of the awards for the AHIP was obtained from a credible Metro official. It also appears that the Board of Aldermen added all AHIP appropriations into the budgets. This helps substantiate that the intended purpose was the Affordable Housing Initiative Project at Louisville Central Development Corporation, not the job readiness skills training at LCCC.

Conclusion

The administrative mistakes are attributable to both the Department of Neighborhoods and Louisville Central Community Centers. ***These mistakes appear to have resulted in non-compliance with the grant agreements, yet compliance with the intended purpose of the appropriation.*** Therefore, it is not recommended that further remedial action be taken. It is beyond the authority of the Office of Internal Audit to make the final determination of the necessity of further action. This will be referred to the administering Agency (Department of Neighborhoods) for final determination of necessary action. It is recommended that DON request assistance from the County Attorney in making the final determination of further action.

Department of Neighborhoods - Additional Results

- Name:** Truancy Reduction / Job Readiness Grant (#29G12187LC)
- Purpose:** To provide an after school program to reduce truancy and enhance education for sixty at-risk students with an activity focus in arts /education. NOTE: See non-compliance explanation regarding job skills training portion of this grant.
- Award:** \$60,000
- Period:** Fiscal Year 2002
- Results:** A sample of ten transactions totaling \$20,700 was reviewed. The following problems were noted.
- In two cases, the records included LCCC Activity Budget Requests, but vendor invoices were not available. The total amount involved was \$699.
 - In two cases, the expenditures did not appear to have been incurred during the effective period of the grant. The expenses were associated with activity anywhere from one to six months after the grant period had ended. The total amount involved was \$748.17.
- Conclusion:** *It appears the Truancy Reduction funds were used as intended in the grant agreement.* Documentation and timing problems, such as those noted, are common in grant reviews from these periods. Therefore, it is not recommended that the activity in question be disallowed, i.e., LCCC does not need to repay the amount to Louisville Metro Government.
- However, LCCC action is necessary to ensure these problems do not occur in the future. In addition, Louisville Metro grants monitors should ensure that necessary corrective action is implemented so that grant funds are properly accounted for.
- Refer to the explanation of non-compliance section of this report regarding the job readiness portion of this grant.

Name: Truancy Reduction (#29G11984LC)

Purpose: To provide an after school program to reduce truancy and enhance education for sixty at-risk students with an activity focus in arts / education.

Award: \$20,000

Period: Fiscal Year 2001

Results: Total expenditures as reported to the Department of Neighborhoods indicated \$10,000 spent on salaries, and \$10,000 on program supplies. A sample of expenditures from each was reviewed as follows.

Payroll

A sample of five payroll disbursements totaling \$1,597 was reviewed.

- Problems noted included no timesheets for any of the five disbursements, missing payroll reports, and inaccuracies on the reports submitted to the Department of Neighborhoods.

Program Supplies

A sample of eighteen disbursements totaling \$1,702 was reviewed.

- Problems noted included invoices / receipts or other supporting documentation not available for any of the eighteen disbursements, and several checks could not be verified on the bank statements provided.

Conclusion: *It appears the funds were used as intended in the grant agreement.* Documentation problems, such as those noted, are common in grant reviews from these periods. Therefore, it is not recommended that the activity in question be disallowed, i.e., LCCC does not need to repay the amount to Louisville Metro Government.

However, LCCC action is necessary to ensure these problems do not occur in the future. In addition, Louisville Metro grants monitors should ensure that necessary corrective action is implemented so that grant funds are properly accounted for.

Board of Aldermen

Name: Russell Area Community Gardens Grant (Aldermanic – NPRF)

Purpose: Neighborhood Beautification Effort (\$500)
Make A Difference Day Celebration (\$500) National Crime Night Out Program (\$500)

Award: \$1,500

Period: Fiscal Year 2002

Results: All transactions for the grant were reviewed. The following problem was noted.

- Complete documentation was not available to support one of three expenditures reviewed. The records did include an LCCC Activity Budget Request, but no vendor invoice was available. The total amount involved was \$500.

Conclusion: *It appears the funds were used as intended in the grant agreement.* Documentation and timing problems, such as those noted, are common in grant reviews from these periods. Therefore, it is not recommended that the activity in question be disallowed, i.e., LCCC does not need to repay the amount to Louisville Metro Government.

However, LCCC action is necessary to ensure these problems do not occur in the future. In addition, Louisville Metro grants monitors should ensure that necessary corrective action is implemented so that grant funds are properly accounted for.

Office of Youth Development

- Name:** Non-School Hours - Operation Youth Express (#28G11973CC)
- Purpose:** To provide workshops for youth focusing on academic achievement, career awareness, and job readiness, including field trips and other activities.
- Award:** \$1,500
- Period:** Fiscal Year 2001
- Results:** A sample of five transactions totaling \$584 was reviewed. The following problems were noted during the review of activity for this grant.
- In three cases, there was no invoice / receipt to support the expenditure, nor was there an LCCC Activity Budget Request. The total amount involved was \$454.
 - There was one case in which there was an LCCC Activity Budget Request, but no vendor invoice. The total amount involved was \$30.
 - In one case, the expenditure does not appear to have been incurred during the effective period of the grant. The expense was incurred nine months after the grant period had ended. The total amount involved was \$100.
 - In one case, the amount recorded on the LCCC activity ledger did not agree with the actual expense. The ledger understated the transaction by \$100.
- Conclusion:** *It appears the funds were used as intended in the grant agreement.* Documentation and timing problems, such as those noted, are common in grant reviews from these periods. Therefore, it is not recommended that the activity in question be disallowed, i.e., LCCC does not need to repay the amount to Louisville Metro Government.

However, LCCC action is necessary to ensure these problems do not occur in the future. In addition, Louisville Metro grants monitors should ensure that necessary corrective action was implemented so that grant funds are properly accounted for.

RECOMMENDATIONS

Louisville Metro Government

Appropriate personnel should take corrective action to address the issues noted. Specific recommendations include the following.

- ✓ Further action is needed to resolve the issues regarding the grants that were administered by the Department of Neighborhoods. The information will be provided to the current Department of Neighborhoods Administration for review and determination of the extent of action needed. The current Department of Neighborhoods Administration was not responsible for these grants, and therefore has the necessary independence to make this determination. In addition, the County Attorney should be asked for assistance in reviewing this matter and the Department of Neighborhoods determination of further action.
- ✓ Louisville Metro grants monitors should perform follow-up site visits with Louisville Central Community Centers to ensure corrective actions implemented were effective. This should be done for current grants awarded to Louisville Central Community Centers, not retroactively.
- ✓ Appropriate Metro Agencies need to ensure that grant funds are used as intended. This includes verifying that grant agreements are for the same purpose as the recipient's proposal / the intended purpose of the appropriation.
- ✓ Monitoring activities should include reviewing quarterly / periodic reports, as well as site visits. During the site visits, the accuracy of the required reports should be verified by reviewing supporting documentation (e.g., invoices, cancelled checks, bank statements). Results of monitoring activities should be documented, with appropriate follow-up actions noted when necessary.
- ✓ Complete documentation must be maintained in grant files to include the proposal, grant agreement, any approved changes to the agreement, grantee activity reports, and monitoring reports / documentation. Periodic spot checks by supervisory personnel should be performed to ensure all applicable documents are in the files.
- ✓ The feasibility of establishing a central office to manage all external agency grants should be explored. Not only would this provide a single contact for all processing requirements, it would also help ensure that grant funds are administered efficiently, used as intended, and adequate oversight of activity. Such a central office may require the reallocation of some resources from the various Metro Agencies involved in administering external grants.

- ✓ Metro Finance and Budget is the official custodian for financial documents. The importance of maintaining files with proper support documentation, including fully executed grant agreements, should be stressed to applicable personnel.

Louisville Central Community Centers

LCCC needs to address the issues noted to ensure future grant funds are properly accounted for. Specific recommendations include the following.

- ✓ Complete and accurate documentation should be maintained for each grant. This should include a separate file for each grant, as well as specific accounting codes in the financial system. At a minimum, each grant file should contain the proposal, the executed grant agreement, required reports, and a summary ledger of financial activity. Detailed documentation for all financial activity is not necessary in the grant file as long as the ledger contains sufficient information to locate the file copy (e.g., vendor file).
- ✓ All expenditure activity should be properly documented with receipts / invoices / timesheets, cancelled checks, accounting ledgers, and bank statements. It may be beneficial to note the allowable category from the Work Program Budget on each expenditure document.
- ✓ Procedures should be in place to ensure activity is within the scope of the grant agreement, and within the effective periods. Any exceptions should be approved by applicable Louisville Metro personnel and documented in the file.
- ✓ The results of this review will be provided to current Louisville Metro grants monitors for follow-up. If these types of mistakes continue to occur, or corrective action was not effective, additional training of key personnel at Louisville Central Community Centers may be necessary.

RESPONSE - DEPARTMENT OF NEIGHBORHOODS

The response from the Metro Department of Neighborhoods is on the following page.



LOUISVILLE METRO GOVT
OFFICE OF NEIGHBORHOODS

2004 DEC 14 AM 9:41

LOUISVILLE, KENTUCKY

DEPARTMENT OF NEIGHBORHOODS

JERRY E. ABRAMSON
MAYOR

MELISSA MERSHON
DIRECTOR

December 2004

Mike Norman, Chief Audit Executive
Louisville Metro Government

Re: Review of Grants to Louisville Central Community Centers, Inc.

Dear Mike,

We are in receipt of the audit report for the Louisville Central Community Centers and concur with your findings. Due to staffing changes, errors occurred by the 'old' City of Louisville Department of Neighborhoods in the administrative set up and oversight of this grant. Even so, we do not believe any funds were misappropriated or that any improper activity took place.

The "old" City of Louisville Department of Neighborhoods administered this grant. When the grants manager and later the grants administrative assistant left city government, duties were disbursed to other positions and the control of the external agency grants faltered. When the new merged government took office in January of 2003, the errors mentioned in the management of this grant had already occurred. We worked with the auditors to understand the concerns raised and we personally discussed the original intent with the granting authorities.

The current Louisville Metro Department of Neighborhoods believes the intent of the grant was executed even though there were errors in the monitoring process. As director of the department, I discussed this issue with the County Attorney's office and we both feel there is no further need for remedial action.

We agree with the findings in your audit and since the grants are no longer housed in our department, no further action will be taken by the current Louisville Metro Department of Neighborhoods.

Sincerely,

Melissa Mershon, Director
Louisville Metro Department of Neighborhoods and Community Outreach

CC: Bill O'Brien, County Attorney's Office